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E. Barbu, C. Richard Baker

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BARBU Elena, BAKER Richard



Unité Mixte de Recherche CNRS / Université Pierre Mendès France Grenoble 2
150 rue de la Chimie – BP 47 – 38040 GRENOBLE cedex 9
Tél. : 04 76 63 53 81 Fax : 04 76 54 60 68



Institutions Involved in International Convergence of Accounting Standards : A Neo-Institutional and Historical Analysis

BARBU Elena M.*

BAKER C. Richard[†]

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* Maître de conférences – CERAG UMR CNRS 5820 – IAE d’Grenoble, Elena.Barbu@upmf-grenoble.fr.

[†] Professeur – School of Business, Adelphi University, Garden City, New York, USA, Baker3@Adelphi.edu.

INSTITUTIONS INVOLVED IN INTERNATIONAL CONVERGENCE OF ACCOUNTING STANDARDS : A NEO-INSTITUTIONAL AND HISTORICAL ANALYSIS

RÉSUMÉ

After the implementation of International Financial Reporting Standards (IFRS) in the European Union in 2005, many countries including Canada, United States and Mexico have now announced that they will adopt IFRSs for all listed entities from 2011, 2014 and 2012 respectively. Thus, the process of international convergence of accounting standards appears to be entering a culminating stage.

There are three theoretical and contextual premises which form the basis of this research. The first is that the process of international convergence of accounting standards (ICAS) has taken place within a highly institutionalized environment characterized by isomorphic pressures directed towards convergence of accounting standards on a worldwide basis. The second premise pertains to the apparent controversy concerning the origins of international accounting harmonization and convergence: American or European. A third contextual premise relates to the lack of prior literature; only a few organizations and institutions have been previously examined and discussed by the research literature.

Based on these three contextual premises, the purpose of this paper is double. First of all, we identify the primary institutions and organizations which have been influential in the process of international convergence of accounting standards from the end of the 19th century through the present. Second, employing a framework derived from neo-institutional theory, we seek to explain how this process has been influenced and caused by several primary organizations.

Keywords: International Convergence of Accounting Standards, IFRS, New Institutional Theory, Isomorphic Pressures, Organizations.

Introduction

The process of international convergence of accounting standards (ICAS) appears to be reaching a culminating stage. On November 2008, Canada, United States and Mexico announced that they would adopt IFRSs for all listed entities from 2011, 2014 and 2012. Since 2005, business enterprises domiciled in the European Union with shares listed in public capital markets has prepared their consolidated accounts in accordance with International Financial Reporting Standards (IFRS). A similar requirement has been adopted in a variety of number of different countries, including Australia, New Zealand, China, Russia, and many others.

The United States Securities and Exchange Commission (SEC) now allows IFRS to be used by non-US businesses for listing purposes on share exchanges in the United States. The SEC has also adopted a roadmap for convergence between Generally Accepted Accounting Principles (GAAP) issued by the Financial Accounting Standards Board (FASB) and IFRS. Nevertheless, despite the trend towards increasing convergence of accounting standards on an international basis, it is important to remember that this trend has been the result of a long process of gradual change towards harmonization, comparability and eventual convergence over a period spanning at least fifty years. The process of ICAS would not have been possible without the active participation and influence of important actors such as the SEC, the FASB and the IASB.

The purpose of this paper is to identify the primary institutions and organizations that have been involved in the process of ICAS. The methodological approach is to trace the history of these organizations and their participation and influence through time. The overall objective is to explain how the process of ICAS has developed and how it has been influenced and even caused by significant actors.

There are several theoretical and contextual premises which form the basis of this research. The first is that the process of ICAS has taken place within a highly institutionalized environment characterized by isomorphic pressures directed towards convergence of accounting standards on a worldwide basis (Dimaggio and Powell, 1983; Dimaggio, 1988; Bealing et al, 1996). An example of an isomorphic pressure was the mandate by European Commission that all European companies with listed shares must prepare their consolidated accounts in accordance with IFRS. It will be seen that this isomorphic pressure was facilitated by Memoranda of Understanding issued in 2002 and 2006, in which the FASB and the IASB agreed to work together toward convergence of accounting standards. Thus, it is an argument

of this paper that the process of ICAS was influenced by a coordinated effort between the American standards setters and the IASB. Moreover, this process was specifically directed towards institutional isomorphism (i.e. convergence) of financial accounting standards (Dimaggio and Powell, 1983; Bealing et al., 1996).

A second contextual premise underlying this research pertains to the apparent controversy concerning the origins of international accounting harmonization and convergence. Previous research indicates that American accounting and financial professionals believe that ICAS has been primarily initiated by persons outside of the United States, while European accounting and financial professionals believe that international accounting harmonization has been primarily influenced by Americans (Baker and Barbu, 2007). We believe that our paper may be able to shed some light on this controversy.

A third contextual premise relates to the lack of prior literature addressing the overall process of accounting harmonization and convergence. Only a few organizations and institutions have been previously examined and discussed by the research literature. For example, Newman (1981b) discussed the central role of the SEC in the development of international accounting standards. Zeff (1998) focused on the tension between private sector interests and the SEC. In a similar manner, Bealing et al. (1996) explained the institutional pressures exerted on the SEC's regulatory policy decision-making processes. In a more recent study, Previts et al. (2003) discussed the most significant events related to the SEC's involvement in ICAS during the years from 1976 to 2001. Sutton (1997) offered a history of the SEC, its role in the establishment of financial accounting standards and its relationships with the FASB. There are also studies by Chandler (1992) on the links between IFAC, the IASC and IOSCO; Melumad and Shibano (1994), focused on relationships between the SEC and the FASB; and Ahadiat and Stewart (1992), who looked at the relationships between the SEC, the OECD, the United States government, the European Union and the IASC. Generally, these previous studies analyzed only one or two organizations, or several organizations in either Europe or the US, without providing a comprehensive overview. The contribution of our paper is to provide an overall perspective of the process of ICAS. In addition, the prior research has generally focused on a descriptive analysis of a particular organization, without providing a historical or critical analysis. The current paper provides a greater level of historical and critical analysis.

The remainder of this paper is divided into two parts. The first part identifies the significant institutions and organizations which have been involved in the process of ICAS and classifies these organizations into major categories. In the second part, an historical

analysis of the evolution of these organizations and institutions is presented using a neo-institutional theoretical framework.

Part I: The principal organizations involved in ICAS

The first part of this article tries to give a brief historical background of ICAS process (1.1), to identify the organizations that have played a significant role in this process (1.2) and to present them (1.3).

1.1 Historical background of the ICAS process

This paper takes the position that the ICAS process exists in a highly institutionalized organizational environment. Within the ICAS process there are various organizations which were specifically created to facilitate harmonization and convergence of financial accounting standards on a worldwide basis. These organizations have experienced coercive isomorphic pressures as the forces of globalization have demanded increasing levels of convergence in financial accounting standards. For example, the SEC has influenced the ICAS process in ways that are perceived by parties outside of the US as being hegemonic (Hoarau, 1995). This hegemonic influence has produced coercive isomorphism pressures in the standards-setting process resulting in a direct influence on the structures and practices of the IASB (Tarca, 2004). In addition, as the primary organization representing the accounting profession in the United States, the America Institute of Certified Public Accountants (AICPA) has influenced the ICAS process through its interactions with professional bodies in other countries and through its commissioning of research studies focusing on accounting practices in different countries (AICPA, 1965). The activities of the AICPA constitute examples of normative isomorphism in that professional accountants seek to define the conditions and methods of their organizational and professional lives. Finally, accounting standards-setting bodies in various countries have adopted structures and procedures similar to those of the FASB. This is evidence of mimetic isomorphism (Cappelletti, 2006).

The early literature pertaining to the ICAS process was primarily written by practicing accountants and it was published in professional journals, such as the *Journal of Accountancy* (Brandt, 1962). The purpose Brandt's article was to examine "differences in accounting principles and practices in European countries, with a suggested approach to worldwide uniformity" (p. 68). While there was some discussion of ICAS published in the late 1960s, the creation of the International Accounting Standards Committee (IASC), in 1973, prompted an increased interest in ICAS. Wyatt (1989) observed that one of the primary reasons for the

creation of the IASC was to advance the international harmonization of financial accounting standards. In spite of the increased interest in ICAS, between the years 1973 and 1989, progress was slow towards achieving increased harmonization. In a move to speed up the ICAS process, the IASC issued a *Framework for the Preparation and Presentation of Financial Statements* in 1989, which set forth the basic concepts underlying International Accounting Standards (IAS). The purpose of this framework was to promote ICAS by reducing the number of allowable alternatives. In 1995, in a further move to speed up the process, an agreement was reached between the IASC and the International Organization of Securities Commissions (IOSCO) whereby IASC agreed to develop a core set of accounting standards and IOSCO agreed to permit these standards for capital raising purposes in global capital markets (IASC, 1995). This agreement signaled that the primary reason for ICAS was to facilitate global capital markets. Other important events in the ICAS process included the creation of the IASB as the successor to the IASC, in 2001, and the approval by the European Parliament, in 2002, of the use of IAS/IFRS for financial reporting purposes by publicly listed companies in the EU, with an effective date of January 1, 2005.

Following this brief historical background of ICAS, we now proceed to identify the organizations that have played a significant role in this process.

1.2 Identification of institutions and organizations

Radebaugh and Gray (1993, p. 143) listed seven categories of organizations that have influenced the ICAS process. It has been argued that ICAS process serves the interests of a number of interested parties. For business enterprises that prepare consolidated accounts, a convergence between the accounting standards of the domicile of the parent and the accounting standards of the countries in which the enterprise has subsidiaries facilitates the preparation of consolidated accounts, provides a better comparison of the financial results of subsidiaries in different countries, and leads to cost reductions in the accounting function. In addition, Nobes (1991, p. 70) argued that ICAS facilitates international acquisitions and takeovers.

With respect to financial accounting information, equity investors are considered to be privileged users, and ICAS is frequently demanded by such users. Choi and Levich (1991b) reported that 50% of investors surveyed in New York, London and Tokyo were reluctant to invest in foreign shares because they felt that they could not analyze the accounts of foreign companies. It has therefore been argued that ICAS would facilitate cross-border investments.

Various international organizations have also been interested in the harmonization and convergence of financial accounting standards for a variety of different reasons. Among these are: the United Nations Organization (UN), the Commission of the European Union (EU), the Organization for Economic Cooperation and Development (OECD), and the World Trade Organization (WTO). These organizations are focused on the effects of consolidated group accountants on economic development. From the perspective of the regulators of capital markets, the existence of a common set of international accounting standards leads to an increase in the number of companies listed on share exchanges, thus intensifying the amount of activity in capital markets. Accounting harmonization and convergence is also advantageous for external auditors in that a reduction in differences among standards can reduce the amount of audit work necessary to review, revise and certify accounts, thus leading to reduced audit costs and increased audit quality. Credit agencies are also interested in ICAS because they want transparency and understandability in accounts with respect to raising international capital. Figure 1 depicts the organizational field in which national and international organizations operate.

*****Insert Figure 1 here*****

Appendix I to this paper, presents a list of 44 organizations that have been involved in the process of international accounting harmonization and convergence over time. Some of these organizations no longer exist, while some are still active. We have identified International, American, European, and French organizations which have played a significant role in the harmonization and convergence process (see Figure 2). The term “international” may be somewhat misleading here, because the American, European or French organizations may also be regarded as international. We use the term “international” to distinguish those organizations that act specifically at the international level from those that act primarily at a national level. Some of the organizations listed in Appendix I have participated actively in promoting and influencing harmonization and convergence of financial accounting standards. However, it is more often the case that it is the standardization committees of governmental entities, share exchanges and professional institutes and organizations which have been most involved in the harmonization and convergence process. These institutions and organizations will be discussed in more detail in the next section.

*****Insert Figure 2*****

1.3. Presentation of institutions and organizations

This subsection will discuss the various organizations involved in the harmonization and convergence process and the interactions and connections among them.

1.3.1. American organizations

The system of accounting standard setting in the United States is quite complex, involving a number of different interactions among organizations at various levels. Foster (1986)

highlights these interactions at four levels:

- The executive, legislative and judicial;
- Public institutions having regulatory functions;
- Private regulatory institutions;
- Professional and lobbying organizations which try to influence the decisions taken in the three previous levels.

The American institutional structure is represented in Figure 3.

*****Insert Figure 3*****

It should be noted that the organizations situated at levels 1 and 2 are able to influence the organizations at level 3 and 4 through legal and coercive pressures, while the organizations at levels 3 and 4 are only able to exert influence through normative and mimetic pressures. All of these organizations are involved in the international harmonization and convergence process to some degree, but the organizations most directly involved are: the SEC, the FASB and its Foundation (FAF), the AICPA, and the stock exchanges (NYSE and NASD).

The Financial Accounting Foundation (FAF) coordinates the activities of the FASB and the Governmental Accounting Standards Board (GASB). Each of these organizations will be discussed in turn. It should be noted that the structures of the FAF and FASB are similar to those of the IASCF foundation which coordinates the work of the IASB. Like the IASB, the FASB is a private sector organization created in 1972. The work of the FASB focuses on the development and promulgation of accounting standards for the preparation of financial statements issued to shareholders, creditors and other interested parties. The standards of the

FASB are officially recognized by the SEC[‡] and the AICPA[§] as being GAAP. These standards facilitate the efficient functioning of capital markets because investors, creditors and auditors rely on GAAP to define the type of information that is credible, transparent and comparable. Pursuant to the Securities Exchange Act of 1934, the SEC was given the authority to set accounting standards used by listed companies. However, the policy of the SEC has been to delegate this function to the private sector. That is why the SEC has entrusted the promulgation of GAAP to the FASB since 1973.

In February 2006, the FASB and the IASB signed a working agreement targeted toward achieving convergence between American and International standards. The Memorandum of Understanding between the two bodies “affirmed the boards’ shared objective of developing high quality, common accounting standards for use in the world’s capital markets. Both boards felt that a common set of high quality accounting standards would enhance the consistency and comparability of financial statements^{**}. This objective of this memorandum was to achieve isomorphism in accounting standards on a worldwide basis. As a result the FASB and the IASB have played a very important role in ICAS.

The SEC is another important organization involved in the ICAS process. Before the stock market crash of 1929, there was little regulation of capital markets in the United States. During the 1920s, more than 20 million shareholders sought to invest in the capital market. However, it is estimated that of the \$50 billion invested in the share markets during the 1920s, more than half was lost in October 1929. Banks suffered a similar crisis because they invested heavily in the capital market. Consequently, the public confidence in the capital markets declined significantly.

The US Congress passed the Securities Act of 1933 and the Securities Exchange Act of 1934, both aimed at restoring investor confidence in the capital markets. Pursuant to the Securities Act of 1934, the SEC was established to provide regulatory supervision and control of American capital markets. The SEC considers itself to be “the advocate for investors” because its primary mission is to protect investor interests. The importance of restoring confidence in capital markets as a means to facilitate financial recovery was recognized by the President of the United States, Franklin Delano Roosevelt, who appointed Joseph P. Kennedy, the father of the future president of the United States, John F. Kennedy, to be the first Chairman of the SEC.

[‡] *Financial Reporting Release No. 1, Section 101 and April 2003 Policy Statement.*

[§] Rule 203, *Rules of Professional Conduct*, 1973 and 1979.

^{**} www.iasb.co.uk, www.iasb.org et www.fasb.org.

The SEC has its headquarters in Washington D.C. The Commission includes 5 members, including the Chairman, appointed by the President of the United States. The other members, whose terms are each 5 years, are also appointed by the President with the advice and consent of the Senate. The SEC is divided into four departments located in 18 offices with a total staff of 3100 people. This represents a significant investment in the regulation of capital markets.

The AICPA was responsible for standards setting in the fields of accounting and auditing and the development of professional and ethical standards and rules. The AICPA had its origins in the late nineteenth century. Its history is linked to the creation of the AAPA (American Association of Public Accountants) in New York in January 1887. The creation of the AAPA was encouraged by an English accountant Edwin Guthrie, who worked for the company Thomas and Wade Guthrie, in London. The creation of the AAPA addressed two major problems existing at that time in the United States: (1) defining the institutional relationship between the practitioners of accountancy and the companies they worked for, and (2) the formation of organizational structures to coordinate standards and rules related to the practice of public accountancy and auditing.

In order to facilitate accounting standards setting, the AICPA formed an Accounting Standards Team. The role of this group is to develop guidelines for the preparation of accounting and financial information and to influence the decisions taken by the FASB, the GASB, the IASB and other standards setting bodies. The Accounting Standards Team is closely associated with Accounting Standards Executive Committee (AcSEC), a part-time body whose members represent large public accounting firms. AcSEC and the Accounting Standards Team of the AICPA have regular meetings with the major standards setting bodies (FASB, GASB and IASB), as well as the SEC and other working groups of the AICPA.

American organizations have played a very important role in the process of ICAS. The SEC oversees and controls the financial markets in the United States. The SEC is under the direct influence of the President of the United States. The FASB creates and promulgates GAAP, and it now works closely with the IASB to achieve full convergence of accounting standards on a worldwide basis. Several former members of the FASB are now members of the IASB. The AICPA has facilitated interactions between the US Government, the SEC, the FASB and various international organizations whose purpose is to achieve ICAS. These American organizations are historically the oldest and most established organizations in the ICAS process and they have been involved in influencing and even controlling the process for many years (Hoarau, 1993).

1.3.2 International organizations

In this section we discuss organizations that have had an impact on ICAS.

The International Accounting Standards Committee Foundation (IASCF), established in February 2001, is the parent entity of the IASB. The IASCF is a non-profit entity registered in the State of Delaware (USA), with its headquarters in New York. IASCF is composed of 22 members, called Trustees who provide the direction of the IASB and entities associated with it (SAC, IFRIC). The IASB is the successor to the IASC, which was established in 1973 in London. The charter establishing the IASC was signed by 9 countries (Australia, Canada, France, Germany, Mexico, Netherlands, UK, Ireland and the United States). Prior to its going out of existence the IASC was at the heart of the process of ICAS, and many of events which took place after its creation in 1973 were linked to the IASC. The IASB has now taken over the role of the IASC with respect to ICAS. The legitimacy of the IASB within its organizational field is due primarily to recognition by governments holding political power and also through capital market recognition. It is now the key institution in ICAS.

Another international organization United Nations Organization (UN) founded in 1945 by 51 countries. The United Nations now has 189 members, including almost all of the countries of the world. The headquarters of the UN is in New York City and it is a center for the resolution of global problems. In recent years the United Nations has established a secretariat specializing in international accounting. This secretariat is situated within the United Nations Conference for Trade and Development (UNCTAD). The objective of this secretariat is to provide technical assistance, particularly to developing countries. The importance of this organization with respect to ICAS is relatively minimal however its role has become somewhat more important as developing countries seek to implement international accounting standards. The secretariat can help companies that want to implement international standards, but it cannot influence the decisions of countries or business enterprises with respect to those standards.

The Organization for Economic Co-operation and Development (OECD) is a forum for governments to respond to the economic, social and environmental issues arising from globalization. The OECD also prepares comparative data, analyses and forecasts to support multilateral cooperation. The guidelines on accounting for multinational enterprises, dating from 1970, include recommendations regarding the provision of information about the financial activities of multinational enterprises. An accounting standards committee operating

within the OECD focuses on current issues, but the distribution of the reports of the OECD is relatively limited; consequently, the organization does not play an important role in ICAS.

In 1974, the Inter-American Regional Association was founded in the United States. Almost ten years later, in April 1983, eleven government regulatory authorities from North and South America decided to transform the regional association into the International Organization of Securities Commissions (IOSCO). In 1984, the French, Indonesian, Korean and British regulatory authorities joined IOSCO. In 1986, the first annual conference of IOSCO held outside of the Americas took place in Paris. Twenty years later, IOSCO had 181 members, including all of the main regulatory institutions and organizations of the international capital markets. IOSCO has become the largest organization of regulators for the financial markets covering more than 90% of the stock markets around the world. The objectives of IOSCO are to develop an international consensus regarding securities regulation, to exchange information and to establish organizations and commissions that protect investors. IOSCO works especially with the IASB and the IFAC to identify accounting principles and auditing standards that regulators are willing to accept for international capital raising transactions. In 1995, IOSCO recommended that all stock exchanges permit foreign companies to publish financial statements in accordance with International Accounting Standards (IAS) with no reconciliation. In 1998, a new set of principles - Objectives and Principles of Securities Regulation (IOSCO Principles), was adopted. These principles are considered by the international financial community to be benchmarks for international markets. In 2002, a multilateral memorandum (IOSCO MOU) was adopted which was intended to facilitate information exchange in international capital markets. Finally, in 2003 there was approval of a methodology (IOSCO Assessment Methodology) which was intended to evaluate the application of IOSCO principles.

IOSCO plays a very important role in the ICAS process. IOSCO exerts isomorphic pressure directed towards convergence of financial accounting standards. The Chairman of the US SEC is highly influential within IOSCO and thus the US SEC largely controls the isomorphic pressures exerted on the ICAS process. The Technical Committee of IOSCO, a specialized working group established by the IOSCO Executive Committee, is made up of fifteen organizations that regulate worlds' most developed and internationalized capital markets. The objective of the Technical Committee is to review standards setting and regulatory issues related to international securities transactions and to coordinate responses to these concerns. Christopher Cox, Chairman of the US SEC the Chairman of the Technical

Committee. Thus, IOSCO, and indirectly the SEC, has exerted significant isomorphic pressures towards convergence of accounting standards.

The International Federation of Accountants (IFAC) was established in 1977 for the purpose of establishing international standards of auditing and ethics. IFAC now has 165 member organizations from 114 countries. These organizations represent about two million professional accountants on a worldwide basis. IFAC is directed by a Council composed of one representative from each member organization. The Council meets once a year. The executive authority is provided by a Board of 15 members (including a Chairman and a Deputy President) meeting on average 3 times a year. IFAC aims to promote the development and advancement of the global accounting profession acting in concert and with various national institutions and organizations. IFAC is also closely connected with the IASB in that it was created in part to ensure the recognition of IASs and to enhance the legitimacy of IASC in the organizational field (Colasse, 2004, p. 32).

1.3.3. European organizations

Several European organizations are involved in the process of ICAS. Following the framework previously used to present the structure of American and International organizations, the following sections present a brief outline of the European organizations and summarize their functions.

Four levels of European institutions have been identified (see Figure 4):

1. European institutions at the executive, legislative and judicial level;
2. Institutions involved in the regulation of European stock exchange;
3. Institutions responsible for the practical implementation of IAS/IFRS;
4. National pressure groups which have some influence on the work of three other levels.

The European Securities Committee (ESC), which was established in 2001, is composed of representatives from the member states of the European Union. The ESC advises the European Commission on securities regulation. It also functions as a regulator of capital markets in Europe. Major share markets follow the lead of other capital markets. Because the market capitalization highest is on the New York Stock Exchange and the London Stock Exchange developments in these markets are closely watched. The recognition of IAS/IFRS in many capital markets around the world has led to a greater level of harmonization of accounting standards. Following agreement between the FASB and the IASB regarding convergence of accounting standards, increased international harmonization of standards in

global markets is expected. The ESC often discusses the expectations of the SEC with European companies, so its role is important in the organizational field, but it is tinged with a strong American influence.

The Accounting Regulatory Committee (ARC) is a political structure, established in 2001 by the European Commission. This organization includes representatives from all of the Member States. The ARC provides advice regarding the adoption of IASB standards by business enterprises in the EU. It is also responsible for setting up the timetable for the effective date of standards in the member countries. In July 2002, pursuant to Commission Regulation (EC) No 1606/2002 of the European Parliament and Council, there was a decision taken to adopt IAS/IFRS, and in July 2003 this regulation went into effect, with the exception of IAS 32 and 39. The ARC plays an important role in the implementation of international accounting standards in Europe.

The Committee of European Securities Regulators (CESR) is an independent body comprising representatives of the regulatory authorities of the various member states. Like ESC, CESR was established by the European Commission in 2001. CESR replaces the Forum of European Securities Commissions (FESCO). Since 1997, this organization brought together 17 major European stock exchange commissions. The main objective was to achieve greater consistency in the implementation of EU securities legislation and to coordinate the actions of the regulatory authorities of Member States. CESR includes 27 members whose main tasks are: to strengthen the coordination among regulators of European securities markets; to advise the European Commission, in particular regarding the formulation of measures to implement directives in the securities field; and to work towards more coherent rules in the Member States. CESR works closely with the European Commission, European Parliament and the Council of Europe. CESR has also is an observer in the ESC, the ARC, EFRAG and the Financial Services Committee (FSC). Being composed of representatives of the regulatory authorities of the various member states of the European Union, CESR is among the pivotal bodies in the organizational field examined.

The European Financial Reporting Advisory Group (EFRAG) was created by users and preparers of financial statements and the accounting profession and it is composed of representatives from national accounting standards setting bodies. It is a private sector organization which advises the European Commission. EFRAG's main objective is to contribute to the work of the IASB and to advise companies in their application of international accounting standards. EFRAG has played an important role in the process of

ICAS because it participates in the work of the IASB and supports the adoption of IAS/IFRS in Europe.

The Federation des Experts Comptables Européens (FEE) is based in Brussels. It was created in 1987 through the merger of the European Union of Experts Comptables (UEC) and the Groupe d'Etudes des Experts Comptables. FEE is the leading organization of the accountancy profession in Europe. It represents the interests of 44 accounting institutions and organizations from 32 European countries (more than 500,000 accounting professionals). Its role is to advance the harmonization of the accounting profession. FEE also represents the European accounting profession in international fora, and it is an advisory body to the European Union. In 2006, FEE commented on the lack of transparency in the work of various institutions involved in the ICAS process in a document entitled: "Financial Reporting: Convergence, Equivalence and Mutual Recognition". In this document FEE calls on the IASB, FASB, the SEC and the European Union to be more transparent and to communicate about their efforts to reach convergence in international accounting standards setting. Almost all European organizations implicated in the ICAS process were created after 2000, thus their historical importance and influence on the process has been relatively minimal.

1.3.4. French organizations

While French accounting standards setting organizations have not played a significant role in the process of ICAS, we discuss the structure of French accounting standards setting in the following section in order to provide an illustrative example of the interactions that may take place between certain national level standards setting organizations and organizations at the international level. Along with certain other countries, France has struggled to maintain a European perspective on accounting standards setting. Ultimately, however, France and other European countries have been influenced by isomorphic pressures towards harmonization and convergence with the approach towards financial accounting standards setting of the Anglo-American countries. In many European countries (e.g. France, Italy, Germany, Spain), accounting standards setting was under the direct supervision of the State and it was embodied in national legislation. Figure 5 describes the institutional structure of accounting standards setting in France. Similar to our prior analyses, the institutions and organizations are classified into four levels:

1. The first level relates to the executive, legislative and judicial;
2. The second level includes public institutions that regulate accounting information;

3. The third level consists of the institutions that are under the direction of the second level;
4. The fourth is formed by organizations which have had an impact on the regulation and practice of accounting in France.

*****Insert Figure 5*****

In France, the most influential organizations are: the Autorité des Marchés Financiers (AMF), the Comité de la Réglementation Comptable (CRC) and the Conseil National de la Comptabilité (CNC). These organizations provide an alignment between the accounting practices of French enterprises listed on securities exchanges with the demands of European and global harmonization of accounting standards. Their role in the process of ICAS is relatively limited, as argued Colasse (2002, p. 92): “even if the links are established between the IASB and the national standard setters, they are kept at a distance”. Consequently, we do not discuss or analyze them further.

Part II. An historical and neo-institutional analysis of organizations involved in ICAS

This section discusses the organizational field of ICAS and seeks to identify the institutions and organization that have most influenced the process of ICAS.

2.1 Studying ICAS using neo-institutional theory

Pursuant to neo-institutional theory, an institutionalized field is defined as an established social order encompassing a set of rules and standardized practices (DiMaggio and Powell, 1983). Neo-institutional theory studies organizations in relation to their environments, the effects of external expectations on organization, and the development of structures and practices within organizations as they seek to establish their legitimacy. Institutionalization is a process whereby structures, rules and practices in a particular organization are developed and learned. It is assumed that organizational activities are motivated by legitimacy-seeking behaviors, which in turn are influenced by socially constituted norms. For organizations to survive, they must interact with their environment in ways that are seen to be legitimate. Thus, institutionalized elements are regularly incorporated into the structure of organizations because these elements demonstrate conformity with expectations and re-enforce legitimacy (Scott and Meyer, 1983). As a result, the organization

demonstrates that it is acting in accordance with collectively valued purposes. The incorporation of institutionalized elements into organizational structures provides support for organizational cohesion and protects the organization from having its legitimacy questioned. A highly institutionalized environment exerts pressure on organizations which coerce them into adopting structures and practices consistent with expectations (Meyer and Rowan, 1977).

Within neo-institutional theory, the concept of isomorphism refers to the processes through which the organization adapts to the expectations of its environment. These processes involve a series of steps “occurring over a period of time and ranging from co-optation of the representatives of relevant environmental elements to the evolution of specialized boundary roles to deal with strategic contingencies” (Scott, 1991, p. 179). Three types of isomorphism are hypothesized: coercive, mimetic and normative (DiMaggio and Powell, 1983). Coercive isomorphism derives from the pressures exerted on an organization by external parties. Mimetic isomorphism occurs when an organization attempts to imitate a more successful organization operating in the same environment. Normative isomorphism derives from the efforts of the organizational participants to define the conditions of their organizational or professional lives.

2.2 Organizations involved in ICAS: an historical analysis

We have grouped the most important organizations involved in ICAS by geographical location - International, American, and European and by chronology. The organizations are shown in Figure 6 along with their date of origin. Organizations that have been replaced by others are presented on the same line. The current organization is indicated in bold. The growth in the number of organizations demonstrates the increasing importance of ICAS. The most influential organizations in ICAS have been the SEC and the AICPA. These two institutions are the oldest accounting standards setting bodies and they have exerted the greatest isomorphic pressures. The SEC has exerted coercive pressures on the standards setting process both in the United States and on an international basis through IOSCO. The AICPA, as the organization representing the accounting profession in the United States has exerted significant isomorphic pressures on the ICAS process, but it has generally acted in a way that exerts normative pressure on the process.

*****Insert Figure 6*****

Certain key aspects of Figure 6 should be noted. The first point is that the oldest organizations were in American. Second, there is an American influence on the creation and financial support of international organizations. Third, European organizations appear only after the acceptance of IAS/IFRS in Europe (i.e. after 2000). In addition, there is a restructuring of organizations at the international and national levels after the acceptance of IAS/IFRS in Europe (i.e. the emergence of IASCF and the AMF). After the increase in the legitimacy of IASB in the organizational field, we also observe the emergence of organizations that seek to assist companies to apply international accounting standards. Over time, the emergence of more organizations adds complexity to the regulatory environment. Consequently, the greater number of interactions there are in the organizational field, the greater the impediments to achieving final stability in the field.

*****Insert Figure 7*****

In Figure 7, we present model of the influences observed in the historical analysis. This model is inductive and somewhat tentative, but we believe that it provides a theoretical explanation of the relationships between the organizations and their roles in the ICAS process. American institutions appear to be the initiating force behind the international organizations which eventually gain legitimacy among European organizations, which, in turn, have the power to influence national level organizations. The American organizations achieve their goal of isomorphism and convergence in international financial accounting standards through their power to coercively impose accounting standards on companies seeking to raise capital in international financial markets. Figure 7 also indicates that national level organizations are not important actors in the ICAS process. However, the national level organizations have the power to require companies to apply international accounting standards, while other organizations exert indirect isomorphic pressures on the companies through international and European level institutions.

2.3. Organizations involved in ICAS: a neo-institutional analysis

Institutional theory seeks to explain the development of organizations and the way that that organizations compete for political and social power and legitimacy. DiMaggio and Powell (1983) label the process through which organizations tend to adopt similar structures and practices, as *institutional isomorphism*. Institutional isomorphism is a process that prompts a

particular organization within an organizational field to resemble other units in the field facing similar environmental conditions. Due to isomorphic pressures, organizations become increasingly similar within given organizational fields as they conform to the expectations of their environment. Within the framework of institutional theory, DiMaggio and Powell (1983) discuss the concept of institutional isomorphism and consider three types of isomorphism: coercive, normative and mimetic.

“Coercive isomorphism results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function” (DiMaggio and Powell, 1983, p. 150). Coercive isomorphism comes from external influences, for example the pressure of the capital markets. Normative isomorphism stems primarily from professionalization, including the collective efforts of members of a profession to define the conditions and methods of their work and to establish a cognitive base and legitimacy for their professional autonomy. Mimetic isomorphism involves the copying of structures and practices from other organizations operating in the same environment, especially the structures and practices of those of institutions and organizations that are perceived to be successful. An inductive model of influences of the organizational field of IAH, based on the new-institutional theory, is shown in Figure 8.

*****Insert Figure 8*****

The organizational field has been divided into three segments depending on the type of institutional isomorphism that is exerted directly or indirectly. Figure 8 shows that for each type of isomorphic pressure, the main influence comes from an American organization. In the case of coercive isomorphism, it is the United States Government through the SEC which has exerted the most influence. With regard to normative isomorphism, the major influence comes from the AICPA which has influenced developments in ICAS for over fifty years. Mimetic isomorphism refers to imitation of the actions taken by other organizations that are deemed more successful in the same organizational field.

A complex process of isomorphic tendencies coming from the United States has emerged which leads to harmonization and convergence of accounting standards among countries. In effect, even if spontaneous harmonization was not possible, a type of imposed harmonization was achieved in European and other countries. Colasse (2002, p. 93) has observed that “the evolution of international harmonization of accounting [...] has taken place

and will continue in a quasi-indifference to European policies, and will be ultimately abandoned to specialists in Anglo-Saxon accounting”.

CONCLUSION

The American influence on ICAS could not have been achieved without an anchor in Europe. The United Kingdom was an ideal place to establish an international accounting standard setting body. By creating a standards setter that was ostensibly independent of American influences, located in the United Kingdom and privately funded, there could be an influence on international standards setting without raising objections to American hegemony. While a significant portion of the funding of the IASB continues to come from large international corporations and large international accounting firms, the Europeans and others have largely accepted the legitimacy of the IASB and the global accounting standards setter. Not completely acknowledged is that the organization structures and practices of the IASB are virtually identical to those of the FASB and that American accounting standards setters have played a key role in the process of ICAS. Not only were American organizations active as the precursors of the concept of providing information that is useful for investors and creditors in capital markets, they were also advocates for a reduction in the number of allowable accounting methods (i.e. harmonization). Moreover the American organizations were pursuing these objectives as early as the 1950s. Secondly, the American organizations have sought to focus primarily on the needs of investors, rather than other interested parties, such as, for example, providing fair value information. Thus, ICAS has been the result of a long process in which American organizations have influenced the perception of the role of accounting standards setting in an advanced capitalist society.

It is interesting that as a result of the recent worldwide crisis in the financial markets, governments around the world are now questioning the role of an independent global accounting standards setter which has no specific governmental or international controls. There have been numerous calls for increased regulation of the IASB and even repeal of fair value accounting standards. Thus, in a political and financial crisis, the process of ICAS could easily be reversed.

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APPENDIX 1

AAA -	American Accounting Association
AAPA -	American Association of Public Accountants
AFC -	Association Francophone de Comptabilité
AIA -	American Institute of Accountants
AICPA -	American Institute of Certified Public Accountants
AISG -	Accountants International Study Group
AMF -	Autorité des Marchés Financiers
APB -	Accounting Principles Board
ARC -	Accounting Regulatory Committee
ASC -	Accounting Standards Committee
ASCPA -	American Society of Certified Public Accountants
ASE -	American Stock Exchange
CAP -	Committee on Accounting Procedure
CESR -	Committee of European Securities Regulators
CNC -	Conseil National de la Comptabilité
CNCC -	Compagnie Nationale des Commissaires aux Comptes
CNUCED -	Conférence des Nations Unies pour le Commerce et le Développement
COB -	Commission des Opérations de Bourse
CRC -	Comité de la Réglementation Comptable
CRCE -	Comité de la Réglementation Comptable Européen
EFRAG -	European Financial Reporting Advisory Group
ESC -	European Securities Committee
FAF -	Financial Accounting Foundation
FASB -	Financial Accounting Standards Board
FEE -	Fédération des Experts Comptables Européens
FESCO -	Forum of European Securities Commissions
FSC -	Financial Services Committee
GASB -	Governmental Accounting Standards Board
GEEC -	Groupe d'Études des Experts Comptables de la CEE
H3C -	Haut Conseil du Commissariat aux Comptes
IASB -	International Accounting Standards Board
IASC -	International Accounting Standards Committee
IASCF -	International Accounting Standards Committee Foundation
IFAC -	International Federation of Accountants
IFRIC -	International Financial Reporting Interpretations Committee
IFSE -	International Federation of Stock Exchanges
IOSCO -	International Organization of Securities Commissions
NYSE -	New York Stock Exchange
OCDE -	Organization for Cooperation and Economic Development
OEC -	Ordre des Experts-Comptables
OECCA -	Ordre des Experts-Comptables et Comptables Agréés
SAC -	Standards Advisory Council
SEC -	Securities and Exchange Commission
UNO -	United Nations Organization

Figure 1: The organizational field of international accounting harmonization and convergence.

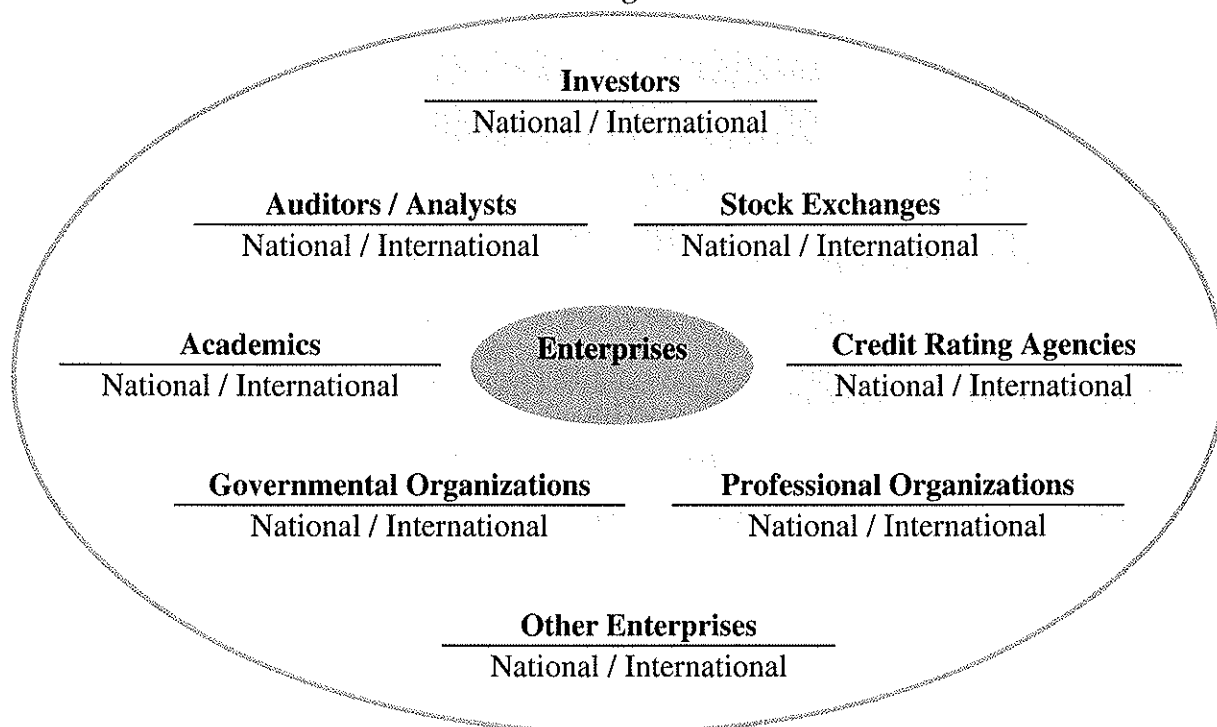
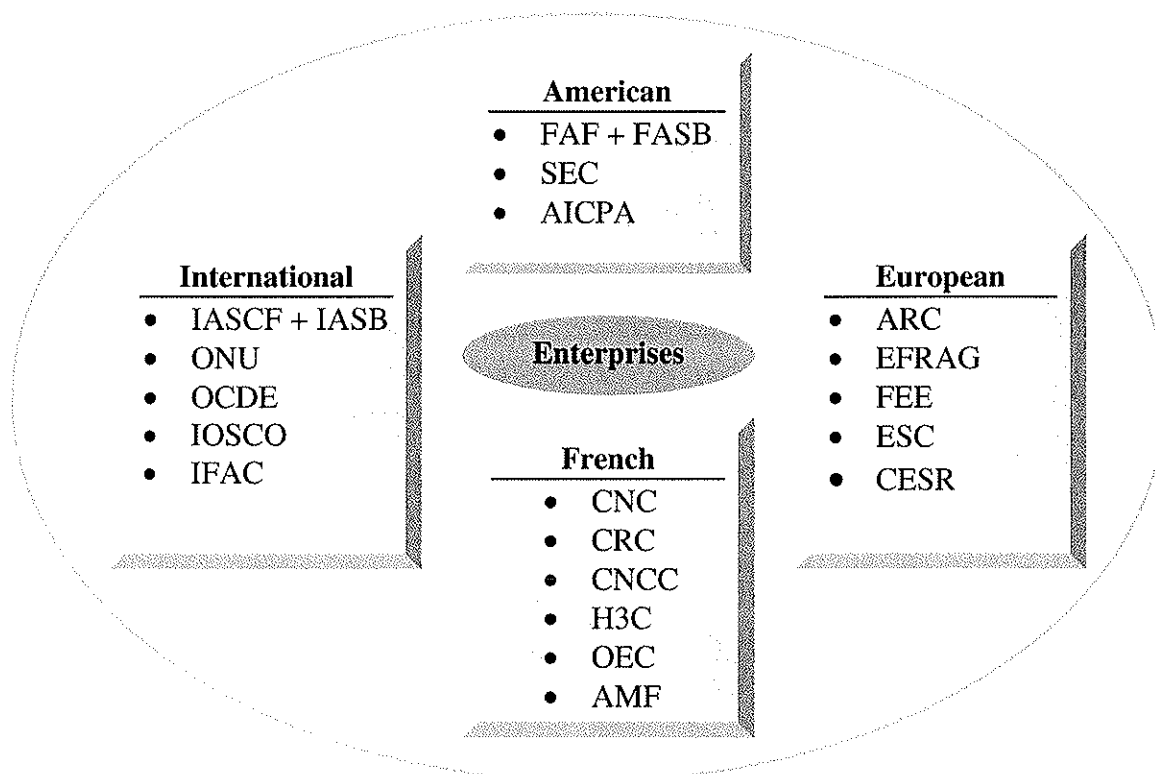


Figure 2: Institutions and organizations involved in the ICAS process^{††}



^{††} The full names are found in Appendix I.

Figure 3: American institutions

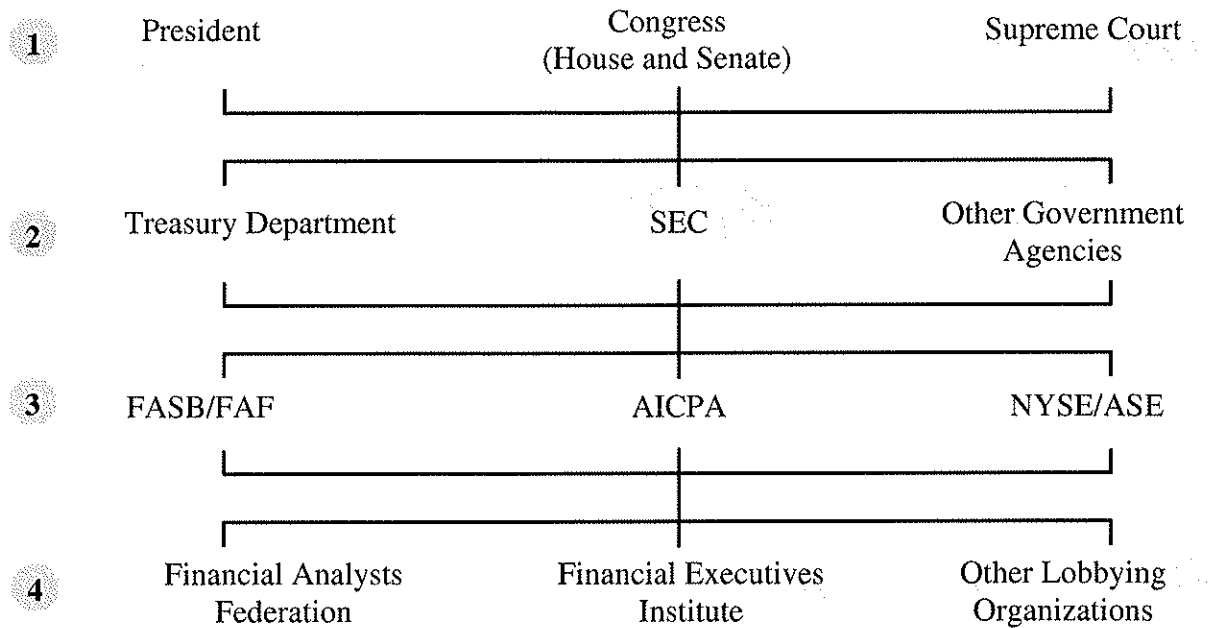


Figure 4: European institutions and organizations

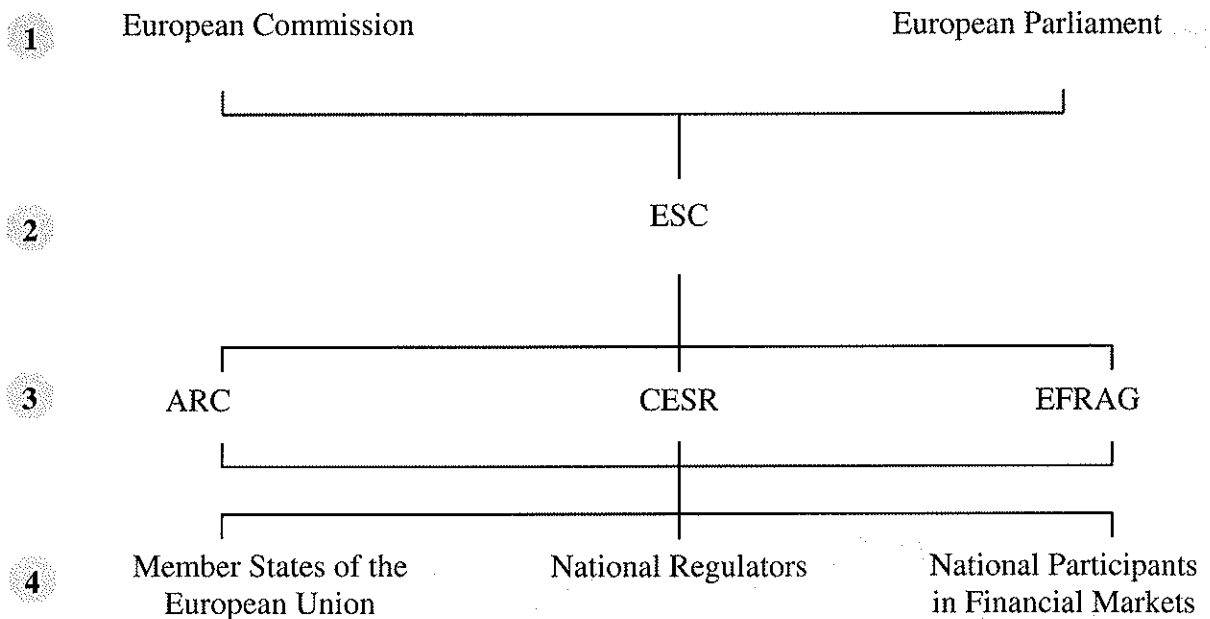
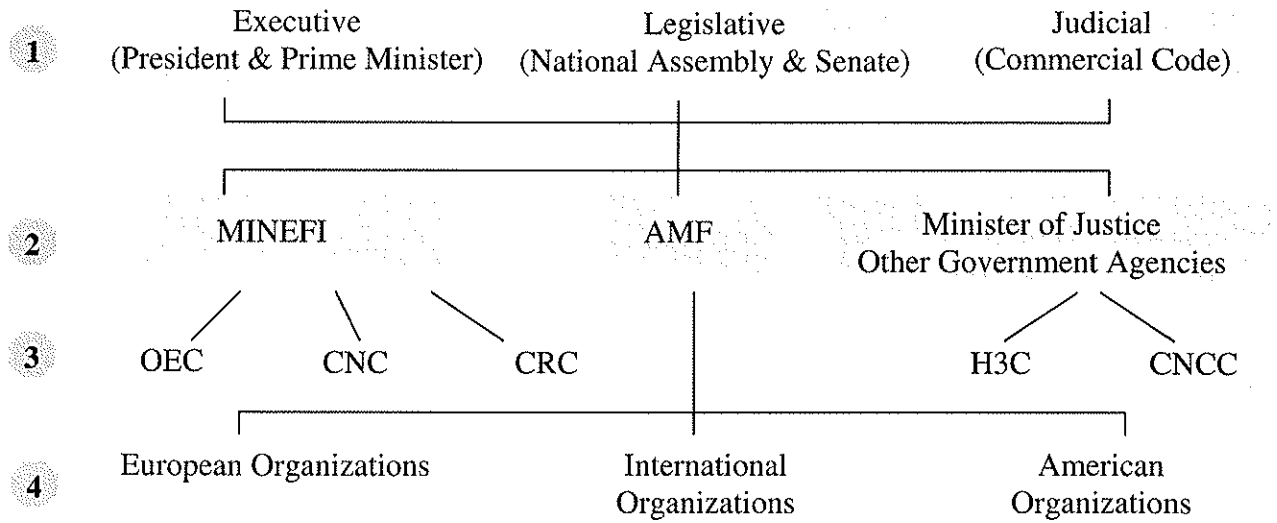


Figure 5: French institutions and organizations



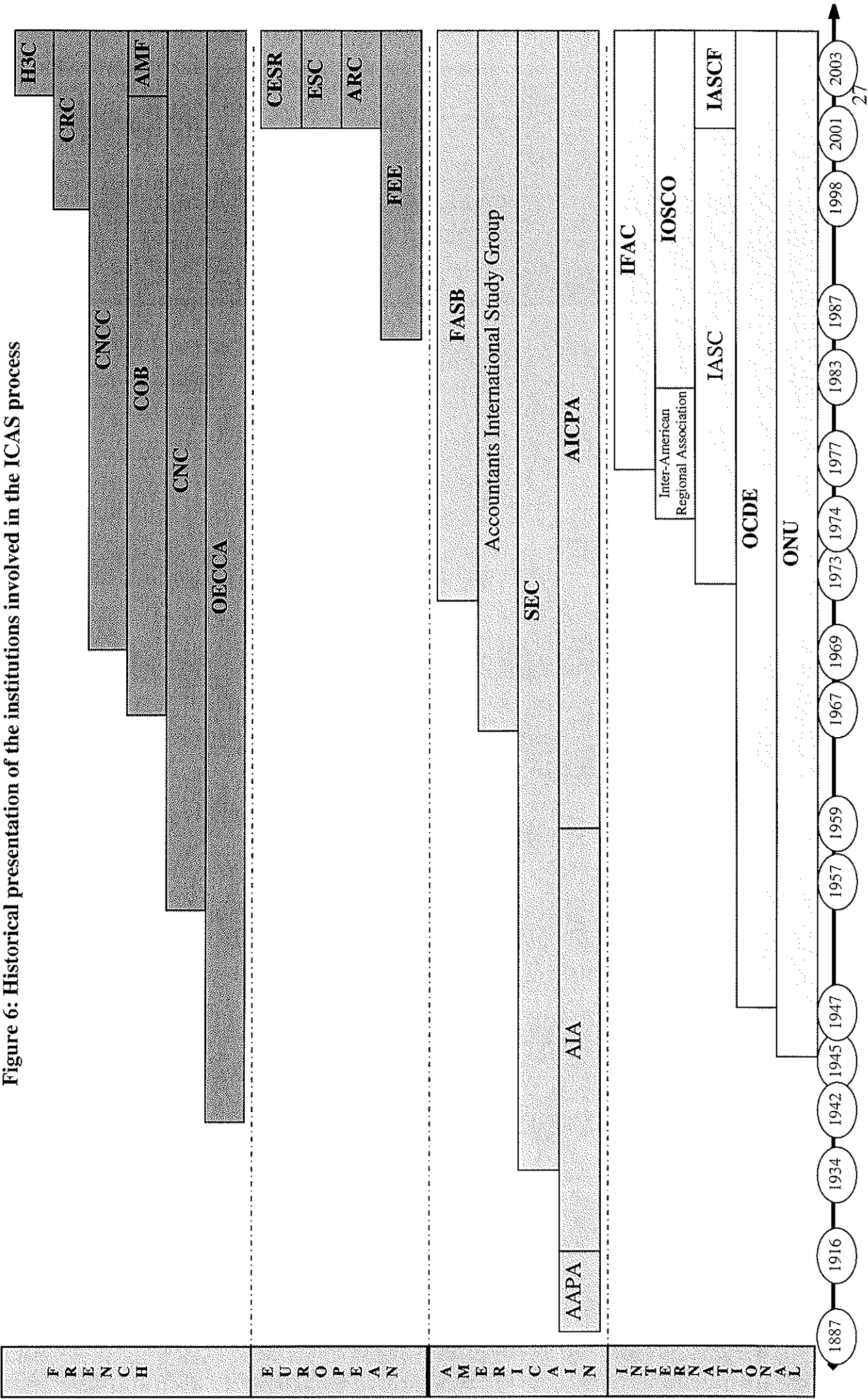


Figure 7: Interactions among institutions in the organizational field



